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Railroads

Address *of* Benjamin F. Bush

President of the

Missouri Pacific; St. Louis, Iron Mountain
and Southern; Denver and Rio Grande
and Western Pacific Railways

Delivered in St. Louis, Thursday
September Seventeenth, Nineteen
Hundred and Fourteen, at the
Forty-eighth Annual Meeting of
the Missouri Press Association

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Mr. President and Gentlemen of the Missouri Press Association:

I appreciate and thank you for this cordial reception and for the kind invitation to meet on this occasion such an important and influential body of citizens as composes your membership.

The press is recognized the world over, in all lands and among all peoples, as a mighty power. It awakens the thought and molds the opinion of the masses as no other agency, and this is particularly true of our own country, where the newspaper comes within the reach of all and is universally read.

I welcome this opportunity, therefore, and am thankful for the privilege of saying a few words to this eminent assemblage on the grave problems which now confront the railroads, the proper solution of which is most vital to the welfare of every other industry and of our entire body politic. In this matter I desire in appearing before you to be considered as having divested myself of all railroad officialdom and be regarded as a citizen of this great nation desirous of doing his full duty in advancing its interests in every legitimate manner. In these trying times individual interests should be sacrificed to the welfare and advantage of the whole country.

As has been well said, "the industrial health of the country depends upon an adequate railroad service, and such service cannot be rendered and proper response to public needs cannot be made unless the financial soundness of the railroads is maintained."

UNCONTROLLABLE INCREASED EXPENSES

For some years the uncontrollable increased expenses and the almost continual enforced reduction of the rates for carriage have so diminished the net earnings of the railroads as to impair their credit in the financial marts. It is needless to dwell upon the reasons, therefor, as they have been wide-spread for a long time

and are no doubt within your knowledge. Suffice it to say that they are beyond the power of the railroads to control. The returns have not been sufficient to render railroad securities attractive to investors. As a consequence, the railroads have not been able to borrow money to make necessary improvements or extensions to meet the requirements of the constantly expanding business and the public demand for better service. Bad as this situation has been, the European war now forces upon the transportation interests a most serious emergency which, if relief is not afforded, will be fraught with grave results.

THE WAR AND ITS EFFECT ON OBLIGATIONS FALLING DUE

The difficulties presented by the war in the marketing of our export products and in the decrease of imports, together with the derangement of our industries and commerce, will have a marked effect in the further depletion of railroad revenues. These will intensely accentuate the situation and to a greater extent impair railroad credit, rendering more difficult future financing of securities. The transportation interests are thus not only deprived of the means to meet urgent current needs, but they are confronted with the momentous task of taking care of outstanding obligations which mature in the near future. A careful computation of these obligations show there are upwards of \$578,000,000 in default at the present time and \$563,000,000 which fall due between now and the end of next year, \$34,000,000 of which will mature this year.

As to whether these securities will be refinanced or extended will depend largely upon the net returns shown by the companies which issued them. These net returns must be greater than in the past to meet the higher interest rates now charged, brought on by the urgent necessities and demands of public and private borrowers here and abroad. It is needless to say that if these obligations are not met, other industrial interests dependent on the railroads will be injuriously affected, inasmuch as their credit is greatly influenced and affected by the standard established by the railroads.

NEEDS OF GROWING COMMERCE

It is probable that for a long time to come American securities will not find a ready market in Europe, as the surplus capital of that continent will be required to replace the vast amount of property destroyed by the war. Nor is this all, for we shall likely have tendered to us for purchase a large share of the nearly five billion dollars of American securities now held in Europe. The suspension of business in our stock exchanges since the war began has no doubt prevented large blocks of these securities from being thrown on the market, which, if done, would have engulfed the country in uncertainty and severe business depression. The grave problem is before us as to how the railroads can secure the urgently-needed additional capital to improve their plants and equipment, whereon depends the prosperity of all other industries and the opportunity for the employment of labor.

It is estimated that to provide in a measure for the average growth of commerce of the country, \$500,000,000 of new money is required yearly. During the last census decade the capital of agriculture and manufactures increased over thirty billions of dollars, more than 100 per cent and as their output is mainly handled by the railroads an idea can be formed as to the necessity of railway improvements to keep pace with them and move the products with facility and dispatch. Such necessary improvements cannot be made from earnings, as these, through the low rates and high expenses, have not in many cases been sufficient to meet interest obligations.

Investors and bankers here and abroad are fully aware of the onerous conditions which beset the railroads, and relief from those sources cannot be expected until a marked change is effected in the present policy pursued toward them.

OTHER INDUSTRIES AFFECTED

In the last annual report of the great Deutsche Bank of Berlin, with a paid-up capital and reserve fund of \$75,000,000, there is a

review of the financial conditions of the world in which appears the following statement: "American railroads need higher freight rates. Their present rates are the lowest in the world—representing for instance but a fraction of the English railway rates—and this in the face of the fact that wages in the United States, on the average, are fully twice as high as in Europe. This latter question *is one of paramount importance for the economic welfare of the whole country* because the earning power of the gigantic net of American railroads is an essential condition for the possibility of their securing the urgently needed additional capital, whereon in turn depends the prosperity of the important industries and the opportunities for the employment of labor."

The fact that one of the greatest financial institutions of the world should, in its annual report, give voice to this weakness in our economic system, should seriously impress people who have heretofore been skeptical as to the needs of the railroads and make them realize what it means to other industries if the railroad revenues continue to be depleted and how grave will be the difficulties experienced in financing other enterprises.

CAPITALIZATION AND RATES HIGHER IN EUROPE

The facts are as stated, that the rates here are much lower than the lowest elsewhere in the world and the wages of employes are much higher than are paid in any other country. These conditions, with the well-known fact that other expenses of operation have been of late years compulsorily increased, render it imperative to the welfare of the country that a reasonable increase in rates should be at once forthcoming. It might also be added that American roads are capitalized per mile for less than one quarter of the English roads and for less than one-half of those of other European countries.

As an instance of how the low rates with the increased expenses work, I may cite the operations of the railroads of the country for the past fiscal year ended June 30th. The gross earnings were

\$44,000,000 less than for the preceding year, but the expenses and taxes increased \$76,000,000, making the net earnings for 1914, \$120,000,000 less than for 1913. Railroad expenditures throughout the year were, on account of decreased traffic, reduced to absolute necessities, yet through enforced practices they were enormously swelled. The year's operations resulted in \$120,000,000 less revenue to meet obligations, which no doubt had been increased during the year by the expenditure of new money for needed betterments or extensions. Owing to the fixed prevailing conditions which beset them, railroads are without ability to reduce their costs in proportion to depleted revenues, hence the gloomy outlook for their immediate future with prospective industrial depression consequent to the war emergency.

GREATEST CRISIS IN RAILROAD HISTORY

How long can the railroad industry of the country continue to give the high standard of service which it now provides, and which is essential to the prosperity of all other industries, trades and callings, with such results for a year's labor, still further impairing their remaining credit? The year cited with its increased expenses and decreased net earnings is not an exceptional one.

We are face-to-face with the greatest crisis in the history of American railroads—so grave in fact that those entrusted with the responsibility of their management are too dazed to fully comprehend the profound difficulties which surround them. With the uncontrollable increased expenses to which they are subjected by Federal and State enactments, by higher wages for organized labor, higher cost for materials and supplies, and a continual increase in taxes, the railroads would not, as many may believe, be afforded the desired relief by a greatly increased business. This is repeatedly shown by many of the roads in prosperous periods, where there is a substantial increase in the business done, yet the gain is more than wiped out by the increased expenses. While such a situation is in a measure due to a lack of adequate facilities to properly and promptly

conduct the increased traffic, it is in a greater degree due to inadequate compensation for the transportation service performed. Both causes work toward a decrease in the net earnings, which in turn impairs the credit of the railroads and renders them less able to raise the necessary capital to provide the required facilities.

RATE ADVANCE ONLY HOPE

The only hope for our railroads, if they are to remain under private ownership, is that there be an immediate advance allowed in passenger and freight rates. The rates now obtainable are not compensatory for the service rendered, and do not permit of the establishment of a sound credit so necessary for the railroads in order to raise money for the better performance of their functions, and if this continues much longer it will unmistakably lead to a deterioration of service, which will inevitably react to the great injury of every other industry, trade, and the entire people of our land.

Such a moderate advance in the rates as would afford the railroads the desired revenue would not appreciably increase the price of any commodity to the consumer, and in the last analysis the consumer is the one who pays the freight. Indeed, the daily fluctuations in the marts of trade of prices of many of the commodities shipped are greater than would be the advance necessary for the railroads' relief. For instance, a ten per cent advance in the rates on the average suit of clothes transported a distance of 500 to 1,000 miles would be from eight mills to one cent; on a pair of shoes, from three to four mills; on a derby hat, one-half a mill; on cotton and silk goods, two mills per yard; on meats, less than one mill per pound; on butter, one mill per pound; on eggs, less than two mills per dozen; on canned goods, one half mill per can; less than four mills per stove; and less than one-third of a mill per loaf of bread. Innumerable other articles might be cited to show that a slight advance in the rates would not appreciably affect the price to the consumer, but by reason of the hundreds of billions of units

comprising the transactions of the railways it would afford the latter the necessary means by which they could provide adequate service and continue in their useful vocation of developing and building up the commerce of the country and the many pursuits arising therefrom. From the present viewpoint their usefulness is seriously jeopardized, and a change in the situation must be soon wrought to prevent direful consequences.

PRESIDENT WILSON URGES AID

I am glad to note that President Wilson realizes the seriousness of the situation, and is willing to aid in its solution. In his letter to the chairman of a group of railroad executives who recently called upon him he said in part:

“You asked me to call the attention of the country to the imperative need that railway credits be sustained and the railroads helped in every possible way, whether by private co-operative effort or by the action wherever feasible of governmental agencies, and I am glad to do so, because I think the need very real.

“They are indispensable to our whole economic life, and railway securities are at the very heart of most investments, large and small, public and private, by individuals and by institutions.

“I am confident there will be earnest and active co-operation in this matter, perhaps the one common interest of our whole industrial life.

“Undoubtedly, men, both in and out of official position, will appreciate what is involved and lend their aid heartily wherever it is possible for them to lend it. But the emergency is in fact extraordinary and where there is manifest common interest we ought all of us to speak out in its behalf, and I am

glad to join you in calling attention to it. This is a time for all to stand together in united effort to comprehend every interest and serve and sustain it in every legitimate way."

This straightforward statement coming from the Nation's Chief Executive will aid much in directing the attention of all thinking citizens to the true seriousness of the situation, and it is hoped that the necessary action will be taken by those in authority to give his views the desired effect.

ENTITLED TO REASONABLE PAY

If the people insist that the railway service to which they have been accustomed, and to which the business of the country is adjusted, shall still obtain, or that a higher standard of service to meet the exigencies that may arise in trade and commerce shall be inaugurated, they should be willing to pay the bills. This is all the railroads ask. It seems only right that the people who have risked their private means to build up the railroad industry, which confers untold benefits upon the entire nation, should be permitted to receive such fair compensation as would result from the employment of such private means in a less beneficial enterprise. The results show there are few classes of industry that yield smaller returns than do the railroads.

While I recognize the authority of the State to regulate the railroads, I believe the State should also protect them and see that they receive rates commensurate with the enforced expenses incident to the regulation. With such protection, State regulation would be stripped of its terrors.

Considering what the railroads have done through the investment of private capital in upbuilding and developing the country, improving the conditions of living, uplifting the people and adding to all the comforts and conveniences of life, they certainly are entitled to that necessary protection which will enable them

to continue in their vocation and elevate to a still higher plane the social, commercial, industrial and agricultural conditions of our people.

There have been cases where it may be held that the railroads were not administered for the benefit of the owners or the public good so much as for the individual advantage to the management. The practice, however, has not prevailed to a degree that would justify the condemnation of the whole railroad industry any more than would the occasional transgressions of a like character in other lines of business merit the censure of the whole, and it would be as unfair to place all of the railroads in such a category as it would be to condemn certain professions or callings because one or more members strayed from the path of rectitude.

LIFE INSURANCE AND SAVINGS DEPOSITS INVOLVED

Millions of our people are daily making noble sacrifices and denying themselves the comforts and pleasures of life to provide for dear ones after they have passed away. Their savings thus effected are largely invested in railroad securities through the life insurance companies and savings banks. There are over 28,000,000 insurance policies in force and 93 per cent of the companies hold as part of their assets nearly one billion and a half dollars in railway securities. These insurance companies have pledged themselves to provide for beneficiaries sooner or later an aggregate sum of over fifteen and one-half billions of dollars. The current assets of these companies in 1910 were \$3,640,000,000, and, as has been well said by one of our eminent economists, "This sum is the ship which is carrying the hopes of millions of our people, and the question the people are asking, and which they have a right to ask, is, Is that ship seaworthy? We may well give thought to so grave a question.

The savings banks, which are most generally supported by millions of our wage-earning class, are also large investors in railroad securities. The last report of the Comptroller of the Currency shows over \$800,000,000 so invested. The depreciation of these

securities carried by savings banks would be most ominous to the entire country if liquidation were forced. Nearly our whole community, therefore, is individually interested in these securities and an impairment of their value, which is inevitable under the conditions now governing, will be fraught with most serious results. Inasmuch as the government has assumed regulatory powers over the railways, it does seem that there rests upon it a moral obligation to protect them in their meritorious work of serving the people.

IN THE PEOPLE'S HANDS

Mind you, I haven't lost faith in the future. We have the greatest country in the world and the greatest and most resourceful people on the globe, and if we all "stand as one" as the President says, we shall weather the storm; but, in the meantime, all thinking men cannot realize too soon the grave exigencies which confront us. Undoubtedly this great European war has opened the doors to many world markets which have heretofore been closed to us; and, in order that we may take prompt advantage of these opportunities, it is all the more necessary that our industrial machinery be maintained at the highest possible point of efficiency. A breakdown in our transportation facilities now would be fatal indeed.

With the power to make rates lodged in the Interstate Commerce Commission and the several states, and with a closer surveillance than ever before of the issuance of all kinds of securities, the railroads are today absolutely in the hands of the people as their will may be expressed through their law-making bodies. If the people are willing that the railroads shall have living rates for the service they render, if they are willing to protect them against assaults and unreasonable demands of one kind and another, we will make American railroad securities so highly respected as an investment that those of our fellow-citizens who have money—who are our only refuge in the present storm—will be glad to put their savings and accumulations into them. This is our only hope.

When one considers that there are approximately four million bona fide holders of American railroad securities at the present time, in addition to the many millions of savings banks depositors and insurance policy holders interested, any one can see how vitally important it is to maintain public confidence in these investments.

The Chief Executive of our nation has well said: "The time has come for great things. These are days big with destiny for the United States as for the other nations of the world; and certainly this is a time when America expects every man to do his duty without thought of profit or advantage to himself."

That the public will not fail us in this crisis, and that those in charge of the railroads will try harder than ever to merit the people's confidence and goodwill, is my fervent belief.

Assist the Railroads

RESOLUTIONS PASSED BY MISSOURI PRESS ASSOCIATION FAVORING AID FOR TRANSPORTATION COMPANIES

The Missouri Press Association, before which the foregoing address was delivered, claims to be the largest State press organization in America, having over three hundred and fifty active members on its rolls. More than three hundred delegates heard the recital of railroad conditions; and the day following, Friday, September Eighteenth, the resolutions printed below were introduced and passed without a dissenting vote.

WHEREAS, the railroads of the United States are the most vital forces for agricultural, commercial and industrial progress in the Nation as well as the largest employers of labor and the heaviest purchasers of steel, lumber and other materials, and

WHEREAS, the European war has closed to them indefinitely the money markets of England, Germany, France, Austria, Belgium and Holland, thus compelling them from this time forward to finance their needs and requirements within the United States, and bringing them face to face with the gravest crisis in their history, and

WHEREAS, we believe it essential for the future agricultural, commercial and industrial welfare of the nation that the railroads be permitted to receive sufficient remuneration to enable them to render high

class service, to make such improvements and betterments from time to time as the needs of the different communities may require, and to re-establish American railroad securities as a highly respected and sound investment, therefore be it

RESOLVED, that the Missouri Press Association, realizing the great and vital part which the railroads have played in the development of our great commonwealth in the past, and the further fact that we are still in need of many new lines and extensions before we shall be able to realize the fullest possibilities of the matchless resources of our state, invites the cooperation of all thinking citizens and our law-making bodies to the accomplishment of the above ends. In this connection, we heartily endorse the non-partisan proposal of Congress to surround the issuance of railroad securities with such safeguards as will henceforth protect the public and the purchaser of railroad securities alike.

